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ARA:JGRUNWALD
EB/TRP:PPILKAUSKAS
ARA/CAR:JTHYDEN
ARA/ECP:SHROGERS

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FM SECSTATE WASHDC
TO AMEMBASSY BRIDGETOWN
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TAGS: ETRD, EAGR, BW, GY

SUBJECT: CARICOM NOTE CONCERNING TRIPLING OF U.S.
SUGAR TARIFF

REFERENCES: KINGSTON 4235, A-4905, STATE 233477

BEGIN SUMMARY. AMBASSADOR RATTRAY OF JAMAICA; AMBASSADOR
MC INTYRE OF TRINIDAD AND TOBAGO; PETER DRUDGE, BAHAMIAN
CHARGE; ORLANDO MARVEL, BARBADIAN CHARGE; AND DENNIS
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GOUVEIA, SECOND SECRETARY, GUYANESE EMBASSY PRESENTED
THE LONG EXPECTED CARICOM NOTE ON SUGAR TO ASSISTANT

SECRETARY SHLAUDEMANN OCTOBER 15.

AMBASSADOR MC INTYRE STRESSED CARICOM SOLIDARITY IN THE FACE OF THE PROBLEMS OUTLINED IN THE NOTE. HE EMPHASIZED THE UNEMPLOYMENT AND ATTENDANT SOCIAL PROBLEMS WHICH MIGHT RESULT AND SAID THAT THE GROUP HAD COME TO FIND OUT WHAT MIGHT BE DONE TO SEEK RELIEF FROM THE INCREASED TARIFF. END SUMMARY.

1. THE TEXT OF THE NOTE READS AS FOLLOWS: BEGIN TEXT
THE RECENT DECISION BY THE U.S. GOVERNMENT TO RAISE THE DUTY ON IMPORTED SUGAR FROM 0.625 CENTS PER POUND TO 1.876 CENTS PER POUND IS VIEWED BOTH WITH CONCERN AND DISMAY BY THE SUGAR-PRODUCING COUNTRIES OF THE COMMONWEALTH CARIBBEAN (CARICOM). THESE COUNTRIES PLACE GREAT IMPORTANCE ON SUPPLYING SUGAR TO THE U.S. MARKET AND VIEW THIS RELATIONSHIP WITHIN A SPECIAL FRAMEWORK OF THEIR TRADITIONAL TRADING PARTNERSHIPS WITH THE UNITED STATES.

2. THE ENACTMENT INTO LAW OF THE U.S. TRADE REFORM ACT OF 1974, SPECIFICALLY TITLE V PROVIDING FOR THE GENERALIZED SYSTEM OF PREFERENCES, WAS SEEN BY THE COUNTRIES OF CARICOM AS AN OPPORTUNITY FOR ECONOMIC DEVELOPMENT AND FOR RAISING THE STANDARD OF LIVING IN THEIR COUNTRIES BY THE EXPANSION OF THEIR EXPORT TRADE. HOWEVER, THIS EXPECTATION WAS SHORT LIVED AS SOME CARICOM COUNTRIES (THOSE WHOSE SUGAR EXPORTS HAD EXCEEDED DOLS 25 MILLION IN VALUE) WERE DENIED DUTY FREE BENEFITS FOR SUGAR, THEREBY PLACING THEM AT A COMPETITIVE DISADVANTAGE VIS-A-VIS OTHER THIRD WORLD SUGAR-PRODUCING COUNTRIES. THE CURRENT THREEFOLD INCREASE WILL SERVE TO WIDEN FURTHER THIS DISADVANTAGE. THE UNCERTAINTY OF EFFECTIVE ACCESS TO THE U.S. SUGAR MARKET, WHICH BOTH THE COMPETITIVE NEED CRITERIA AND THE INCREASED DUTY CREATE, THREATENS DISLOCATION OF THE SUGAR INDUSTRIES OF THE CARICOM REGION AND OPERATES AS A DISINCENTIVE TO AGRICULTURAL DEVELOPMENT.

3. OVER THE PAST 15 YEARS THESE CARICOM COUNTRIES HAVE BEEN RELIABLE SUPPLIERS OF SUGAR TO THE U.S. MARKET AND, LIMITED OFFICIAL USE
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IN TIME OF SHORTAGES IN THE U.S., HAVE REORDERED EXPORTS OF SUGAR IN SUCH A WAY AS TO GIVE PRIORITY TO SUPPLYING THE U.S. MARKET.

4. CARICOM COUNTRIES, THEREFORE, ARE CONCERNED AT THE DAMAGING EFFECT WHICH THIS IMMEDIATE INCREASE COULD HAVE ON THE PROSPECTS FOR SUGAR EXPORTS FROM THE CARIBBEAN AND CONSEQUENTLY ON THEIR ECONOMIES.

5. THE THREEFOLD INCREASE IN DUTY COULD RESULT IN A

SERIOUS DECREASE IN THE QUANTITY OF SUGAR EXPORTED TO THE U.S. BY SOME CARICOM SUPPLIERS. SINCE THE SUGAR INDUSTRY IS THE LARGEST SINGLE EMPLOYER OF LABOUR IN THE REGION (WHERE THE RATE OF UNEMPLOYMENT EXCEEDS 20 PERCENT), AND IS ALSO A PRINCIPAL SOURCE OF FOREIGN EXCHANGE EARNINGS, ANY SIGNIFICANT REDUCTION IN SUGAR EXPORTS TO THE U.S.A. WOULD SERIOUSLY DISLOCATE THE ECONOMIES OF THESE COUNTRIES.

6. THE INCREASE IN THE DUTY APPEARS TO BE CONTRARY TO THE NEW SPIRIT OF COOPERATION THAT EXISTS IN THE HEMISPHERE, AND TO THE SPIRIT IN WHICH THE PRINCIPLES OF GENERALISED SYSTEM OF PREFERENCES WERE ACCEPTED BY THE INTERNATIONAL COMMUNITY.

7. IT IS CRUCIAL TO THE FUTURE OF THE SUGAR INDUSTRIES OF THE CARICOM COUNTRIES THAT THE IMPEDIMENTS TO THE COMPETITIVE EXPORTATION OF THEIR SUGAR TO THE UNITED STATES MARKET SHOULD BE REMOVED AND IT IS URGED THAT THE MATTER SHOULD BE REVIEWED WITH THIS OBJECTIVE IN MIND. END TEXT.

8. THE VARIOUS CARICOM REPRESENTATIVES EMPHASIZED IN TURN THE UNEMPLOYMENT PROBLEMS AND FINANCIAL DIFFICULTIES CAUSED BY THE INCREASED U.S. SUGAR TARIFF. THEY POINTED OUT THAT THESE PROBLEMS WERE EXACERBATED BY WEATHER, PARTICULARLY RECENT DROUGHTS. THEY STATED THAT THEY HAD ALWAYS BEEN PREPARED TO MEET THEIR COMMITMENTS TO THE U.S. MARKET AND THAT IN RETURN THEY WANTED ASSURED ACCESS.

9. SHLAUDEMAN POINTED OUT THAT THE PURPOSE OF THE TARIFF INCREASE WAS TO INCREASE U.S. SUGAR PRICES, NOT TO LIMITED OFFICIAL USE
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RESTRICT SUGAR IMPORTS. RATTRAY COMMENTED THAT NEVERTHELESS THE TARIFF INCREASE COULD RESULT IN A SHIFT AWAY FROM TRADITIONAL SUPPLIERS SUCH AS JAMAICA TO THOSE COUNTRIES WHICH ENJOY GSP BENEFITS.

10. DEPUTY ASSISTANT SECRETARY GRUNWALD SUGGESTED THAT THERE WAS A SILVER LINING TO THE TARIFF INCREASE. THE U.S. MIGHT HAVE RESORTED TO MUCH MORE PROTECTIONIST MEASURES SUCH AS QUOTAS. HE NOTED THAT THE CARICOM COUNTRIES COULD TESTIFY AT THE INTERNATIONAL TRADE COMMISSION HEARINGS ON SUGAR IN NOVEMBER IN ORDER TO PRESENT THEIR VIEWS FOR THE STUDY BEING PREPARED FOR THE PRESIDENT. HE ALSO NOTED THAT WE ARE HOPEFUL OF SUCCESSFULLY NEGOTIATING AN INTERNATIONAL SUGAR AGREEMENT THIS SPRING IN ORDER TO STABILIZE SUGAR PRICES.

11. GRUNWALD AND PILKAUSKAS OF EB ALSO POINTED OUT THAT SINCE THE TARIFF INCREASE THE PRICE OF WORLD SUGAR

HAS INCREASED FROM 7.9 CENTS TO 8.5 CENTS AND THE DOMESTIC PRICE FROM 9.4 CENTS TO OVER 11 CENTS. SHLAUDEMANN ADDED THAT THE UNDERLYING PROBLEM OF SUGAR PRODUCERS IS THE WILD FLUCTUATIONS IN PRICE SUCH AS THE FALL FROM 64 CENTS TO 7 CENTS OVER THE PAST TWO YEARS.

12. SHLAUDEMANN CONCLUDED BY SAYING THAT HE WAS VERY SYMPATHETIC TO THE GROUP'S PROBLEM, THAT HE HOPED THE PROBLEM WAS TEMPORARY, AND THAT HE WOULD MAKE SURE

THAT CARICOM'S VIEWS WERE MADE KNOWN TO THOSE CONCERNED WITH THE PROBLEM. HE SAID HE HOPED THAT AN INTERNATIONAL SUGAR AGREEMENT COULD HELP SOLVE THE FEAST OR FAMINE SITUATION OF SUGAR PRODUCERS. HE NOTED THAT HE RECOGNIZED THE PREFERENCE OF PRODUCERS FOR ASSURED COUNTRY QUOTAS BUT THAT THE ABUSE AND POLITICS INVOLVED IN SUCH A PROGRAM OUTWEIGHED ITS ADVANTAGES. KISSINGER

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